

**TESTIMONY OF
ARTHUR LEVITT, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION**

EXECUTIVE SUMMARY

Introduction. By virtually any standard, the American system of raising capital -- through full and fair disclosure in vibrant and honest markets -- is the envy of the world. Our capital markets continue to experience exceptional growth, and the data available to us gives no indication of an imminent slowdown. In relative terms, the SEC regulates these markets with modest numbers of staff and limited resources. Today's authorization requests appropriations of \$320 million in fiscal year 1998, which is close to the level requested in the 1997 authorization bill. We also request \$342.7 million for fiscal year 1999. This is the minimum additional funding flexibility necessary to fulfill our mission of protecting investors and assuring fair and orderly markets, while responding to constant challenges posed by the markets' rapid growth. These estimates also reflect the Commission's efforts to support Congressional interest in balancing the federal budget. These challenges include keeping pace with evolving uses of technology, increasing globalization, the continuing creation of new financial instruments, and the presence of more inexperienced investors in the market than at any time in our history.

Recent Commission Accomplishments and Initiatives. The SEC has recommitted itself to fulfilling its mission while also eliminating unnecessary regulatory burdens and streamlining others wherever possible. Recent accomplishments and initiatives include:

- reducing regulatory burdens by simplifying registration and reporting requirements for public companies, facilitating small business access to capital, improving the efficiency and coordination of examinations and inspections, and considering the replacement of our transaction-based registration system with a company-registration system.
- protecting investors through strong law enforcement, regulatory initiatives, and investor education. We use enforcement resources for investigations of industry-wide problems and widespread violations of the securities laws, as well as for investigations of individuals and firms. Some of these investigations lead to criminal, as well as civil proceedings. Our regulatory initiatives include order handling rules, which permit investors to compete directly with dealers and other investors on the basis of price, which assures open, fair, and competitive markets. Investor education efforts include educational programs, one of the Federal government's most popular Web sites, plain English initiatives, improved mutual fund disclosures, and nationwide town meetings.
- keeping pace with technology by enhancing the SEC Web site to increase access to information, providing guidance on registration and communication issues raised by on-line securities offerings, tracking increased on-line trading and Internet fraud, and preparing for an overhaul of the EDGAR system.
- promoting internationalization of U.S. markets and international competitiveness through improved foreign issuer access to U.S. securities markets and participation in development of high quality international accounting standards.

**TESTIMONY OF
ARTHUR LEVITT, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION**

**CONCERNING THE COMMISSION'S AUTHORIZATION
REQUEST FOR FISCAL YEARS 1998 AND 1999**

**BEFORE THE SUBCOMMITTEE ON
FINANCE AND HAZARDOUS MATERIALS**

**COMMITTEE ON COMMERCE
U.S. HOUSE OF REPRESENTATIVES**

March 6, 1997

Chairman Oxley and Members of the Subcommittee:

The Securities and Exchange Commission (SEC or Commission) appreciates this opportunity to testify regarding the Commission's authorization for fiscal years 1998 and 1999.

The Commission seeks authorization for appropriations of \$320 million in fiscal year 1998 and \$342.7 million in fiscal year 1999. These requests represent the Commission's best estimate of the minimum resources we will need in each year to maintain effective regulation of the U.S. securities markets.

This level of appropriation should permit the Commission in 1998 and 1999 to address foreseeable issues that will arise from the securities markets' current rate of exceptionally rapid growth. These estimates also reflect the Commission's efforts to support Congressional interest in balancing the federal budget.

The U.S. securities markets are widely regarded as the deepest, most liquid, and fairest markets in the world. These markets experienced considerable growth throughout the 1980s, and since 1991 have continued this growth with the longest and most vigorous bull market in

history, driven, in part, by investor confidence in their integrity. In the past 12 months alone, the U.S. securities markets have experienced exponential growth:

- the Dow Jones Industrial Average has broken the 5,000, 6,000 and 7,000 point levels;
- the New York Stock Exchange and the Nasdaq Stock Market have each seen stock trading volume hit all-time highs; and
- assets in mutual funds have reached record levels of \$3.5 trillion -- a figure that surpasses the more than \$2.6 trillion Americans have on deposit at commercial banks -- and continue to grow monthly.

This growth builds on 1996, a year when:

- total dollar volume traded on the exchanges and the Nasdaq Stock Market exceeded 1995 volume by 31 percent;
- registered public offerings grew to \$1.045 trillion, an increase of 36 percent from 1995 offerings; and
- initial public offerings rose to \$50 billion, up from \$30 billion in 1995, a 67 percent increase.

The ever increasing participation of small investors in the U.S. securities markets fuels some of this growth. Many of these investors now choose to invest their funds for retirement in the securities markets, often through mutual funds. The number of first-time small investors participating in the U.S. securities markets grows daily. Small investor participation will accelerate even more rapidly if Congress acts on proposals to privatize a portion of the Social Security program.

The Commission always has fulfilled its mission to protect investors and maintain fair and orderly markets with modest staff and limited resources. A review of SEC appropriations for 1990-1996 shows that our resources increased at a fraction of the rate of increase of

participants and assets invested in the securities markets.¹ At the same time, the Commission has addressed many significant issues and events, such as educating new investors who are pouring money into the securities markets, regulating continuing innovations in derivative products and activities, and the financial collapse of Orange County.

The incredible growth in the U.S. securities markets described above shows no sign of slowing. We have concluded that we can continue to fulfill our statutory mandate in 1998 at a level close to that contained in the 1997 authorization bill. By 1999, however, the anticipated size of the securities markets, as well as the challenges posed by, among other things, evolving uses of technology in the securities markets, increased globalization of the securities markets, and the continuing creation of new financial instruments, likely will strain the Commission's ability to do our job. Therefore, we believe that by 1999 we will require additional funding flexibility to ensure that we can respond to these new issues as well as to meet mandatory cost increases outlined in the President's budget.

In the past year, the Commission has undertaken a number of initiatives focused on protecting investors and promoting the integrity of the securities markets. Some of these initiatives will reduce regulatory burdens in light of the growth and development of the capital

¹ For example, since 1995, the Commission has had flat staffing. During the same period, the total trading volume on the New York and American Stock Exchanges and the Nasdaq Stock Market increased from 207 billion to 264 billion shares (a 27.5 percent increase); the value of public offerings increased from \$768 billion to \$1.045 trillion (a 36 percent increase); the value of initial public offerings increased from \$30 billion to \$50 billion (a 67 percent increase); and investment company assets under management increased from \$3.062 trillion to \$3.794 trillion (a 24 percent increase).

markets and the evolving technology available to market participants. These initiatives should reduce the costs of participating in the securities markets for investors and other market participants. Reduced costs, in turn, should enhance the markets' depth and liquidity by encouraging more capital formation and investment. Other initiatives address specifically the need to protect market participants, large and small. Some of our most significant accomplishments in recent years include:

- revising the order handling rules to assure markets that are fair and open to investors and that are based on competition;
- upgrading the SEC World Wide Web site, which now has an average of 2.5 million "hits" per week (which translates to approximately 250,000 users per day) and downloads an average of approximately 24 million pages of financial information per week -- making it one of the most active federal Web sites;
- publishing two interpretive releases to facilitate electronic commerce and to maintain at the frontier the Commission's positions regarding electronic media under the federal securities laws;
- proposing requirements that issuers use plain English in prospectuses and releasing a plain English writing guide for issuers;
- proposing rules to simplify mutual fund prospectuses for investors and investment companies and rules to allow a mutual fund to provide a "Fund Profile" summarizing concisely, in a standardized form, key information about the fund;
- easing the limitations on sales and resale of restricted stock and sales of unregistered stock to reduce the cost of capital formation; and
- continuing vigorous enforcement of the federal securities laws, including work with the FBI and the Justice Department to bring criminal charges against those who prey upon American investors.

The remainder of this testimony describes these accomplishments in greater detail. It also outlines additional issues the Commission will need to address in the next two years to

ensure that the U.S. securities markets remain the safest for investors and the deepest, most liquid, and fairest markets in the world.

Reducing Regulatory Burdens

The Commission understands the current government-wide budgetary constraints. We regulate the nation's securities markets with a modest staff and limited resources, operating in partnership with the private sector rather than through pervasive regulation. The Commission staff is small compared to the scope of the agency's mission and the size of the nation's markets.² As a general principle, the SEC supports market-driven regulation -- under which the Commission takes responsibility for core regulatory areas, while much of the direct, day-to-day regulation of securities market participants is done by firms themselves and by private membership organizations (self-regulatory organizations or SROs), under SEC oversight. In this context, the Commission has worked with the securities industry to provide cost-effective regulation in partnership with the private sector. For example:

- The Derivatives Policy Group (DPG), established by the six broker-dealers with the largest derivatives affiliates, developed a framework for voluntary oversight

² The SEC has only 2,726 employees across the country -- to oversee dynamic markets that have grown to be worth more than \$10 trillion. The bank regulators, on the other hand, operate under a direct, comprehensive regulatory system for banking activities and (notwithstanding recent personnel cutbacks) maintain staffs that are, in the aggregate, much larger than the SEC's staff. The FDIC, for example, expected to have staff of approximately 8,700 by the end of 1996 to carry out the agency's function as insurer and backup regulator of approximately 11,400 insured banks and thrifts. See Barbara A. Rehm, FDIC Cuts Budget by 8%; Sets Thrift Insurance Rates, Am. Banker, Dec. 12, 1996, at 2. The Commission does not wish to suggest that one scheme of regulation is better than the other rather that each model has different strengths, tailored to the requirements of the relevant industry.

of the over-the-counter derivatives activities of unregulated affiliates of securities firms. The DPG recommended improved management controls, enhanced quantitative reporting to the SEC and the CFTC, and guidelines designed to foster integrity and responsible conduct with respect to derivatives end-users. The DPG members provide information to the Commission, which we integrate into our financial responsibility and risk assessment programs.

- A task force of SRO and broker-dealer representatives, working with the SEC, developed continuing education recommendations for the broker-dealer community. The SROs adopted uniform continuing education requirements, approved by the SEC, which, for the first time, require each securities firm to prepare training programs addressing the characteristics, risks, suitability, and sales practice considerations of the securities products the firm offers.

The Commission continuously reevaluates regulatory burdens to determine whether the effectiveness of SEC regulations justifies their burden. A number of Commission programs recently were the subject of such reevaluations, the results of which are described below:

Easing capital formation. The Commission regularly seeks to simplify the regulatory structure for registration and reporting by public companies. Over the past two years, two panels have worked to advance these goals. The Task Force on Disclosure Simplification examined every rule related to corporation finance and, in March 1996, recommended eliminating or modifying a quarter of the rules and half of the forms. To date, the Commission has eliminated 44 rules and 4 forms, and plans to eliminate more. The Task Force also proposed a number of other initiatives (which the Commission is beginning to consider) to further increase access to capital markets. These include:

- adding greater flexibility to the offering process to assist issuers with timing and pricing;
- liberalizing the rules restricting cross-border tender offers; and
- expanding the small business exemption for selling securities to employees.

The Advisory Committee on Capital Formation and Regulatory Processes had a broader mandate to reexamine the entire regulatory process for securities offerings. In July 1996, the Committee proposed a fundamental shift in our regulatory scheme from registering transactions to registering companies. The goals of a company registration system would be to streamline capital formation while enhancing investor protection. The Advisory Committee believes the system would eliminate unnecessary complexities in our regulatory system and encourage more registered offerings with earlier and better access to information. The Commission has requested comments on the company registration model as well as on other ways to modernize regulation of the offering process.

The Commission recognizes that small business is the lifeblood of the American economy. Thus, the Commission has adopted a number of initiatives designed to facilitate small business access to capital and to ease regulatory burdens on small business. These include:

- creating a new exemption from registration requirements for limited offerings of up to \$5 million that are exempt from qualification under California law;
- doubling the asset threshold that subjects companies to registration under the Securities Exchange Act of 1934 (Exchange Act) from \$5 million to \$10 million, with the effect of reducing the number of small businesses subject to Exchange Act reporting requirements;
- allowing limited resales of restricted stock (often held by investors in small businesses) after one year and unrestricted sales after two years;
- appointing a special ombudsman to assist small businesses and to serve as the liaison and agency spokesman for small business concerns; and
- upgrading the Commission's Web site to include a page addressing issues of specific interest to small businesses.

Market regulation. The Commission recognizes that regulation often imposes costs on securities markets. Therefore, the Commission is vigilant in trying to reduce those costs whenever it is consistent with the protection of investors.

Recent amendments to the net capital rule demonstrate the Commission's efforts to make regulation more efficient and economic. The Commission recently approved the use of option pricing models to calculate required net capital for both listed options and the related positions that hedge those options. The Commission adopted this amendment after determining that use of the model would more accurately reflect the risk inherent in a firm's options positions and in many cases would reduce a firm's capital charges. The Commission is considering additional rational approaches to the net capital rule, such as using value-at-risk models, in an effort to further amend the rule so that it more effectively recognizes, and can be adjusted to take into consideration, each firm's financial exposures.

Another regulatory initiative under consideration would create a new class of limited purpose broker-dealers to facilitate derivatives transactions. Under current regulations, securities firms conduct their derivatives activities in separate affiliates, many of which are outside of the United States and therefore beyond SEC jurisdiction, depending on the nature of the derivatives activity. A new class of "limited purpose" broker-dealers would be subject to modified capital, margin, and other regulatory requirements tailored to the derivatives business, which is intended to encourage a U.S. securities firm to conduct all its counterparty activities in various derivatives products in a single U.S. affiliate. By consolidating and repatriating the firms' derivatives positions in these "limited purpose" broker-dealers, the Commission anticipates significantly improving oversight of the derivatives market.

In response to the National Securities Markets Improvement Act of 1996 (NSMIA), the Commission has rededicated itself to considering how its rules affect competition, efficiency, and capital formation as part of its public interest determination. Accordingly, the Commission intends to focus increased attention on these issues when it considers rulemaking initiatives. In addition, the Commission measures the benefits of proposed rules against possible anti-competitive effects, as required by the Exchange Act. However, we believe more could be done in this area. Over the next several years, the Commission intends to increase the number of economists on its staff in order to conduct even more comprehensive economic analyses of the impact of Commission rulemaking on financial markets and their participants.

Examinations. In 1995, the Commission created the Office of Compliance Inspections and Examinations (OCIE) to improve the Commission's efficiency and effectiveness in examining regulated entities. That year, OCIE, the SROs and state regulators developed a framework for better examination coordination under a Memorandum of Understanding (MOU).³ As a result, about 85 percent of the broker-dealers who requested coordinated SRO examinations in 1996 received them, and we hope to reach close to 100 percent this year. OCIE, the SROs, and the state regulators also have initiated a series of summits at which they work together to improve examination coordination. We hope to build on this beginning and coordinate efforts even more effectively in the future.

³ Many of the principles in the MOU were codified in NSMIA.

Other steps the Commission has taken to make its examination program more efficient and to address the increasing disparity between the size of the securities industry and available resources include:

- an increasingly "risk-based" examination program focusing on registrants whose activities or practices increase customer risk or the likelihood of compliance problems and areas within specific firms that pose the greatest risks; and
- examinations focused on specific sectors of the securities industry, such as transfer agents, or on specific industry practices such as sales practices among broker-dealers and financial planning activities of investment advisers.

Next month, as required under NSMIA, the states will become the primary regulators for small investment advisers. As a result, the Commission will refocus examination resources on the investment advisers with the greatest impact on the national markets -- those that manage 98 percent of the assets under management in the United States. Pursuant to NSMIA, our obligations regarding small advisers will continue, however. We will provide training, technical assistance, and other support to state regulators, and will conduct joint examinations, classroom training, joint sweep examinations, and other similar operations.

To ensure adequate investor protection, our examination program must keep pace with the phenomenal growth in the securities industry. For example, additional resources are necessary for the Commission to increase the frequency of inspections of transfer agents and clearing agents, some of which handle securities issued to millions of investors, and to review the internal controls of large securities firms. Similarly, we need to devote more resources to monitoring supervision in firms with rapidly increasing networks of broker-dealer branch offices, many of which are one-person branches operated by independent contractors. Finally, funding is needed to develop advanced technology systems for tracking examinations, selecting

registrants for review, developing computerized examination and research tools, and coordinating with other national and state regulatory authorities and organizations.

Investor Protection

The Commission's foremost mission is the protection of investors. The Commission pursues this mission through vigorous law enforcement, regulatory initiatives, and programs to inform and educate investors.

Law enforcement. Over the past few years the Commission has made a substantial effort to address market-wide problems in the securities industry and widespread violations of the securities laws. For example, the Commission recently participated in a sting operation with the FBI and the National Association of Securities Dealers (NASD) that resulted in criminal charges against 46 stock promoters, company officials, and current or former brokers for illegal kickbacks to brokers for sales of over-the-counter and Nasdaq stocks. The Commission also brought 22 administrative proceedings against 29 of the individuals criminally charged.

In January 1996, the Commission brought enforcement actions against Orange County, the Orange County Flood Control District, two county officials, and the county board of supervisors in connection with the fraudulent offer and sale of over \$2.1 billion in municipal securities. In November 1996, the Commission also brought an enforcement action against CS First Boston Corporation and two of its investment bankers in connection with their role in underwriting one of the fraudulent bond offerings. The Commission continues its enforcement proceedings brought in the wake of Orange County's financial collapse in 1994.

In addition, last summer the Commission concluded an 18-month investigation of the Nasdaq Stock Market, in which the Commission found that market makers coordinated their quotes so that investors paid too much and received too little when they bought and sold stock on the Nasdaq Stock Market. The Commission also found that the NASD failed to ensure the accuracy and fairness of the quotation and transaction information, failed to apply certain rules to its members, and selectively enforced rules against others. In August 1996, the Commission announced a far-reaching settlement with the NASD, in which the NASD committed to spend \$100 million over five years to improve its surveillance, examination, and enforcement of the handling of customer orders. The NASD also agreed to make important structural changes to ensure that it represents adequately the interests of investors and responds effectively to indications of anti-competitive practices or other wrongdoing.

In addition to the significant resources devoted to these major cases, the Commission maintains its vigorous enforcement program against individuals and firms that violate the securities laws. Over the past two years, the Commission brought over 900 enforcement actions against over 2,000 defendants and respondents. These cases involved domestic and international insider trading, Ponzi schemes, misleading disclosure, kickbacks or conflicts of interest relating to municipal securities offerings, broker-dealer sales practice abuses, and unregistered securities offerings over the Internet. For example:

- *In the Matter of Bennett Funding Group, Inc.* Bennett Funding allegedly raised over \$570 million through the sale of purported equipment leases; the proceeds of sale were diverted to the company's former chief financial officer (CFO) and persons connected with him or the other defendants; the former CFO consented to a preliminary injunction and asset freeze in these pending proceedings.

- *In the Matter of Kent Ahrens.* The Commission initiated an injunctive action and an administrative proceeding against the senior trader at a registered investment adviser who engaged in unauthorized trading that resulted in losses of \$137 million to the Common Fund, which manages endowments for 1,400 U.S. colleges and universities.
- *In the Matter of Systems of Excellence.* The Commission obtained a temporary restraining order and asset freeze and suspended the trading of Systems of Excellence, a public company purportedly in the business of video teleconferencing, to stop an on-going manipulation involving false press releases and fraudulent Internet postings. The Commission's asset freeze preserved millions of dollars for defrauded investors. Charles D. Huttoo, the former Chairman and CEO of Systems of Excellence, subsequently pled guilty to criminal charges of securities fraud and money laundering.

As we look ahead, we know that the Commission must dedicate additional resources to policing fraud on the Internet. The ever-increasing level of securities activities occurring over the Internet will force the Commission to expand its activities in order to keep up.

Broker sales practices. The Commission continues its campaign to improve broker sales practices. In 1996, the Commission, NASD, New York Stock Exchange, and state regulators joined in an examination sweep focused on these practices. The sweep identified a number of problems in broker sales practices, including excessive trading, unauthorized trading, improper registration of representatives, cold-calling violations and deficiencies. Furthermore, one-third of the examinations conducted in the sweep found varying degrees of supervisory problems. As a result of these findings, state and federal regulators and the SROs initiated disciplinary actions and, with the industry, increased their emphasis on supervisory procedures and obligations.

In response to another industry practice, the Commission is currently examining the soft dollar arrangements of mutual funds, investment advisers, and brokerage firms. The

Commission also has announced plans to examine possible sales abuses by insurance companies selling variable annuities.

Order handling rules. In the context of the enforcement action against the NASD, the Commission identified a need for rules to further assure that markets are open and fair to investors, and are based on competition, not coordination. The order handling rules, which went into effect in January, are intended to let competition foster increased fairness, efficiency and best execution:

- by requiring that dealer quotes reflect investor limit orders;
- by requiring public display of "hidden" dealer interests; and
- by requiring public display of trading activity in significant proprietary systems and requiring that the national best bid and offer reflect that trading activity.

The rules permit investors to compete directly with dealers and with other investors on the basis of price, which we believe will allow the market more fully to reflect investor interest.

In the year ahead, the Commission will work with the securities firms and the NASD to implement these rules to ensure that these market reforms benefit investors.

Improvements in disclosure. Adequate and accurate disclosure of financial and other material information regarding issuers and securities is essential to investor protection. The Commission recently initiated and adopted several programs to improve disclosures. Last year, the Commission launched a pilot program that offers expedited review of required securities reports to companies that write their prospectuses in plain English. This program has drawn universal praise from its participants (which include major corporations such as GE Capital, Bell Atlantic, and ITT). This year, the Commission proposed rules to require the use

of plain English in prospectuses and published a draft handbook to assist issuers in preparing reports in plain English. Last month, the Commission adopted new rules requiring companies to disclose specific information about their derivative activities and related market risks. These rules give investors tangible, quantifiable information about these instruments and their potential consequences for a company's financial position.

Mutual fund disclosures. The Commission also targeted investment company disclosures for improvement. Last week, the Commission proposed three new initiatives representing the most significant change to mutual fund disclosure the Commission has undertaken in the last 14 years.

- The Commission proposed to overhaul the prospectus requirements and registration form for mutual funds. The proposal focuses prospectus disclosure on essential information about a particular fund that would assist an investor in reaching an investment decision, while minimizing disclosure about technical, legal, and operational matters that generally are applicable to all funds. In conjunction with the Commission's plain English initiative, described above, this proposal is designed to make fund prospectuses easier for investors to use and easier for funds to prepare.
- As the culmination of a two-year experiment, the Commission proposed to permit a fund to provide investors with a short (three to four page) disclosure document called a "profile." The profile would summarize key fund information (including investment strategies, risks, fees, and past performance) in a concise, standardized format that is easy to read and helps investors compare different funds.
- The Commission proposed a new rule that would require a fund's name to better reflect its investment strategy. The rule is intended to provide an investor greater assurance that a fund's investments will be consistent with its name.

Investor education. Investor protection requires investor education. The Commission emphasizes the importance of investor education through outreach programs that assist investors and small businesses to understand the capital markets and the securities industry. In

addition to the plain English initiatives described above, recent Commission initiatives include:

- creating a toll-free telephone Investor Information Line;
- conducting town meetings across the country, in which the Commission answers questions and provides helpful advice to investors; and
- creating a series of easy-to-read brochures about choosing brokers or mutual funds.

Technology

Recent advances in communications technology have increased access to the securities markets for investors and businesses. Every advance brings new challenges in applying the securities laws. For example, the Internet already has changed the face of brokerage and investment management, through on-line trading and other innovations, and may also redefine disclosure and what constitutes an exchange. In the past two years, we have published interpretive releases, rules, and no-action letters to provide guidance on the use of electronic media under the federal securities laws. The Commission is excited about the greater access to capital markets that technology can bring, but we are concerned that the Commission will not have adequate funds in the coming years to meet the corresponding challenges that technological innovations will pose. We are racing to keep up with new developments while maintaining our existing technology. As noted above, the SEC's home page has become one of the most popular government sites on the World Wide Web, and we evaluate constantly how to facilitate access to the extensive information available there. In addition, our EDGAR

database of corporate information, while on the cutting edge of technology 10 years ago, will begin a major overhaul by the end of this year.

Promoting the International Competitiveness of U.S. Markets

The depth and integrity of the U.S. securities markets have made our markets preeminent in the world and, as a result, have attracted increasing numbers of foreign issuers and investors. This continuing internationalization benefits U.S. markets and investors alike. It promotes the leading position of the U.S. markets and gives U.S. investors a broader array of investment choices within the strong disclosure and investor protection framework of the U.S. markets. The Commission has sought to promote internationalization of the U.S. markets, while safeguarding their transparency and fairness. Initiatives include:

- streamlining registration, reporting, and reconciliation requirements for foreign companies;
- permitting, in cross-border offerings, the use of certain international accounting standards in portions of financial statements filed with the Commission; and
- streamlining financial statement disclosure requirements for both foreign and domestic issuers with respect to acquired foreign businesses.

In addition, the Commission, both directly and indirectly, through the International Organization of Securities Commissions (IOSCO), continues to participate in the efforts of the International Accounting Standards Committee (IASC) to develop a core set of high-quality, comprehensive, international accounting standards. The development of a single set of standards that can be used in securities markets around the world would allow companies more readily to cross borders to raise capital in markets that offer favorable financing conditions.

The IASC has set a goal of completing these standards by March 1998. The Commission will report to Congress on progress in the development of international standards in October 1997, as required by NSMIA.

Due in part to the Commission's internationalization efforts, foreign issuers increasingly turn to the U.S. markets to raise capital. Foreign issuer offerings of securities in U.S. markets have almost quintupled, from about \$30 billion in 1990 to approximately \$144 billion in 1996. Since January 1, 1996, over 160 foreign companies from 35 countries have entered our reporting system, including companies from Chile, China, France, Indonesia, Italy, Russia, and the United Kingdom. As of December 31, 1996, 843 foreign reporting companies representing 47 countries were registered with the Commission.

With increased international trading comes a need for better cooperation and communication regarding the regulatory and enforcement issues that may arise between the U.S. and foreign regulators. The Commission has entered into 29 arrangements with foreign authorities for cooperation. By providing for cooperation among regulatory agencies, these arrangements facilitate enforcement investigations into cross-border securities transactions.⁴ Similarly, in the regulatory area, the Commission works with its foreign counterparts to address concerns relating to global systemic risk. On a multilateral basis, the Commission has taken a leading role in international efforts to assure high quality market standards and

⁴ In 1996, the Commission made 230 requests for enforcement assistance to foreign governments and received 340 requests for assistance from foreign authorities, pursuant to these cooperation arrangements. The success of the Commission's international enforcement program has been recognized; our system has served as the model for other domestic legislation and for securities regulators around the world.

coordinate enforcement activities through organizations such as IOSCO and the Council of Securities Regulators of the Americas.

Conclusion

The Commission plays a vital role in protecting U.S. securities markets from fraud, manipulation and other practices that continually threaten to undermine the integrity of our markets. To maintain current operations, respond to market growth, and develop initiatives for emerging issues, particularly in the areas of technology and globalization, the Commission needs adequate funding. Therefore, the Commission urges adoption of this authorization request, which provides the framework for accomplishing the Commission's critical responsibilities.

In presenting today's authorization request, the Commission has been mindful that government resources are strained. The Commission recognizes, however, that important work lies ahead of us. Among the challenges we will face over the next two years are:

- issues posed by the increasing number of small investors who invest their retirement savings in mutual funds through retirement plans;
- responses to the special concerns raised by the increasing use of derivatives and other complex financial products; and
- maintaining vigilant oversight of markets as those markets grow increasingly complex and volatile.

The Commission would like to take this opportunity to thank this Committee and its staff for their hard work in forging a consensus to solve the Commission's funding problems.

As a result of Congress' bipartisan efforts, NSMIA will move us to a more stable funding structure and allow us to plan better for our future needs.

In order to take on new challenges, and to continue the Commission's excellent record of effective investor protection, law enforcement, and market oversight, the Commission will need funding at least at the levels requested today. We therefore urge the Subcommittee to adopt our authorization request in order to allow the SEC to promote capital formation and maintain effective oversight of the vitally important U.S. markets.